



The Advantage of Innovative Thinking



Currency Markets in Flux: Rebalancing Investment Portfolios in Crisis

Presenter: Eric V. Guichard – Chief Investment Officer

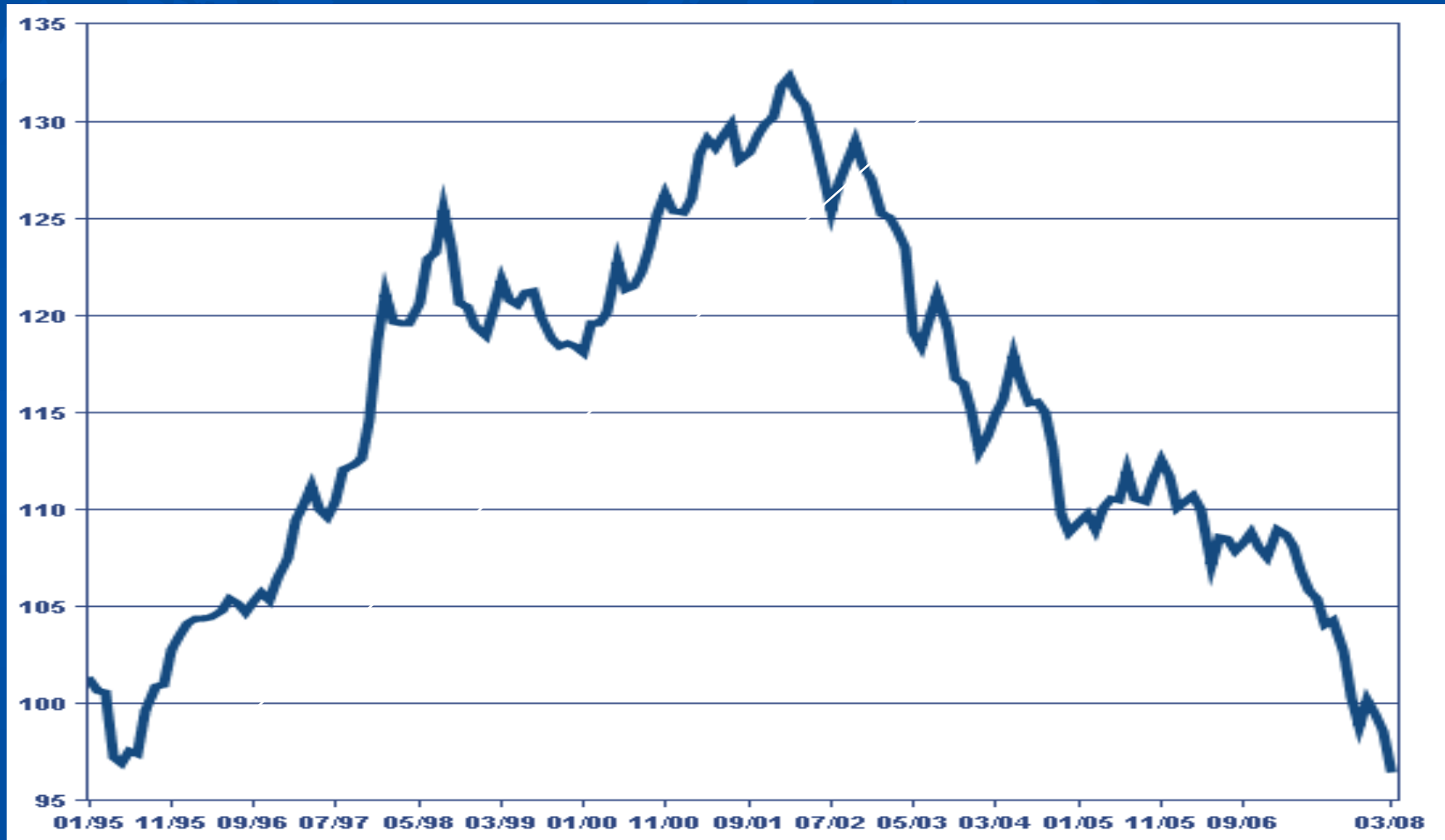
Caribbean Center for Monetary Studies
Senior Level Policy Seminar
May 2nd, 2008
Hyatt Regency
Port-of-Spain – Trinidad & Tobago, WI

Key Issues?

- ◆ Fall out of sub-prime on currency trends?
- ◆ Global portfolio currency composition implications?
- ◆ Changes in Strategic Asset Allocations?
- ◆ Value creation plays in this context?

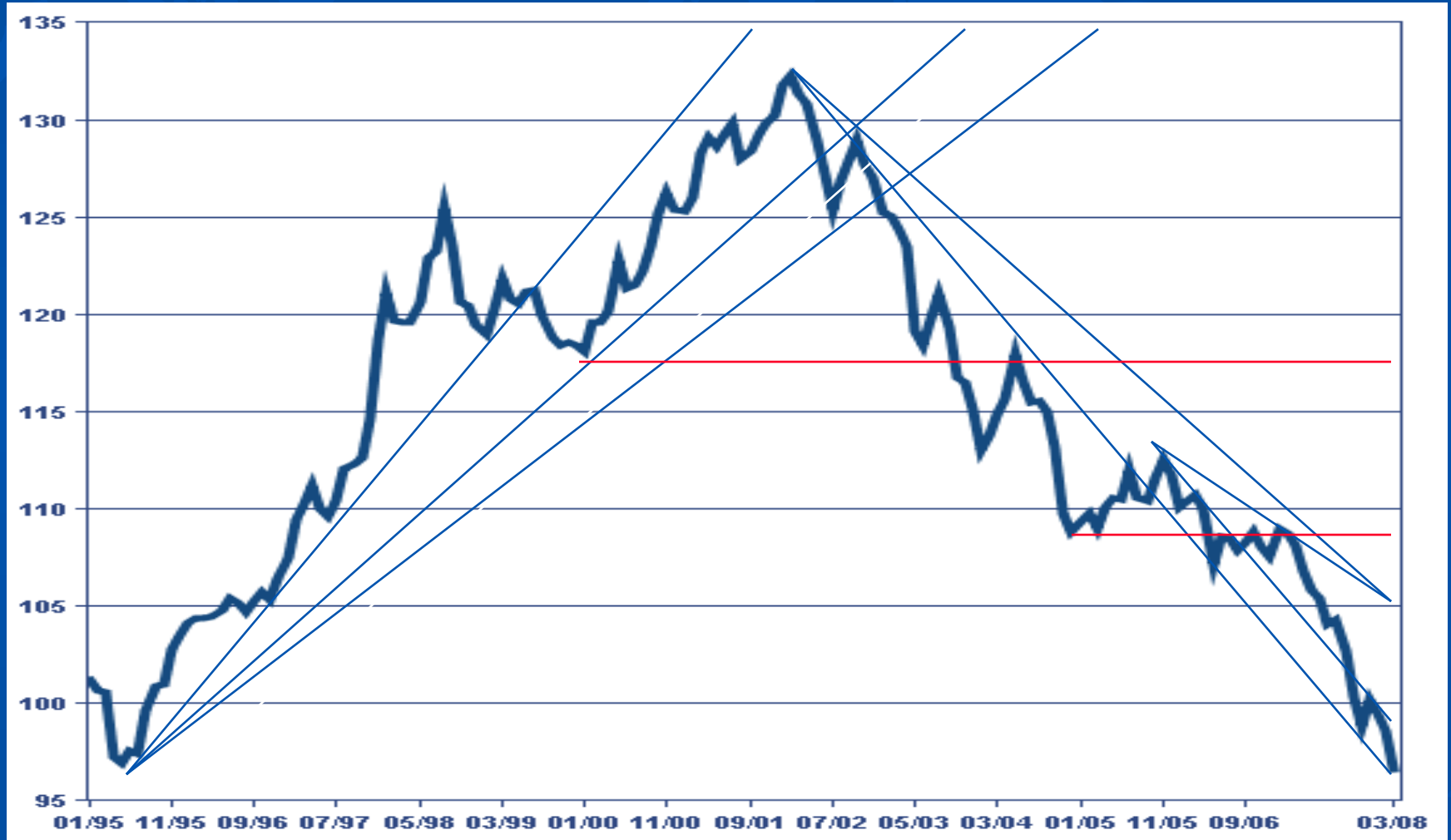
USD Index 1995 – 2007

(Source: Federal Reserve)



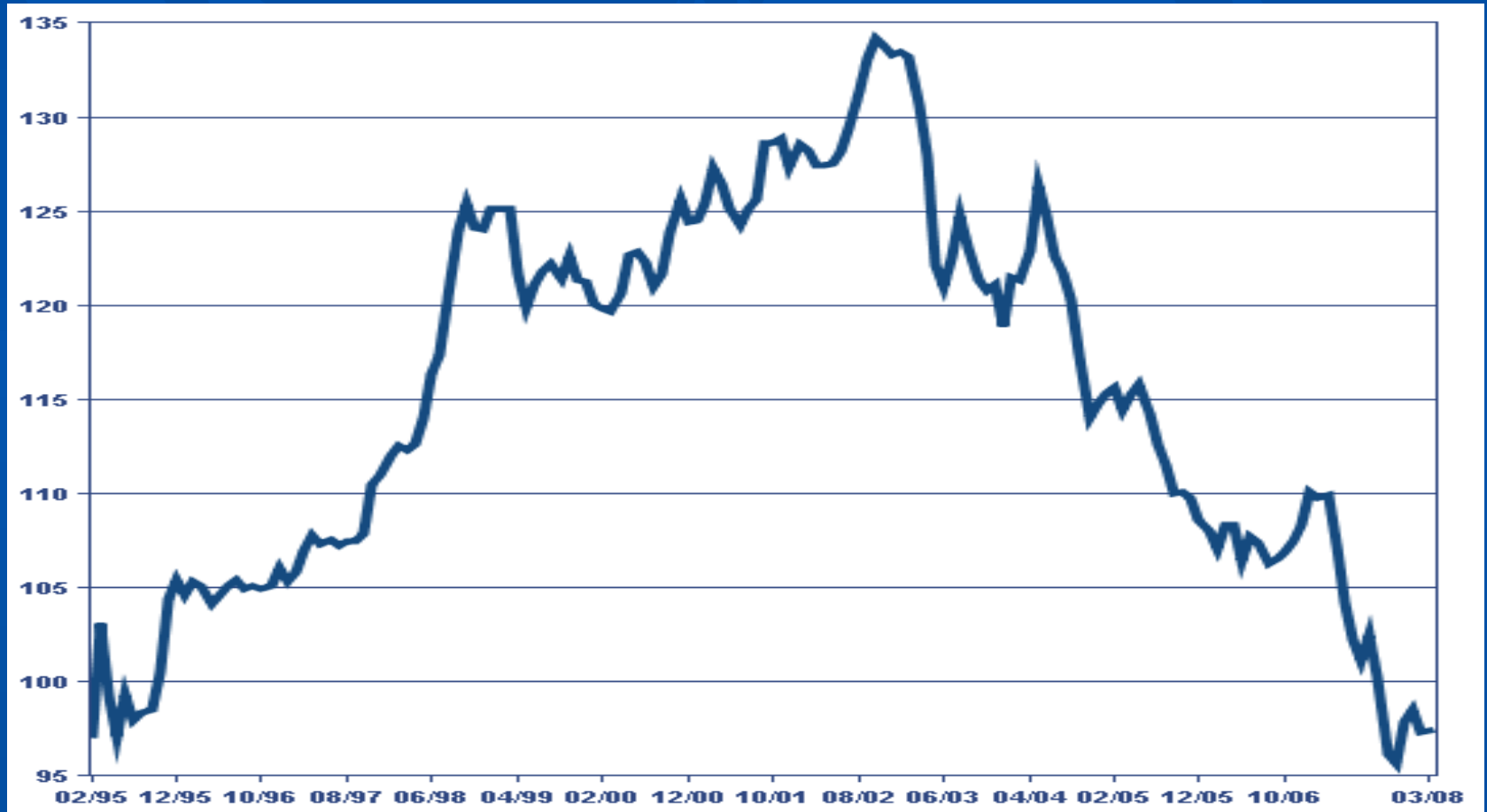
USD Index 1995 – 2007

(Source: Federal Reserve)



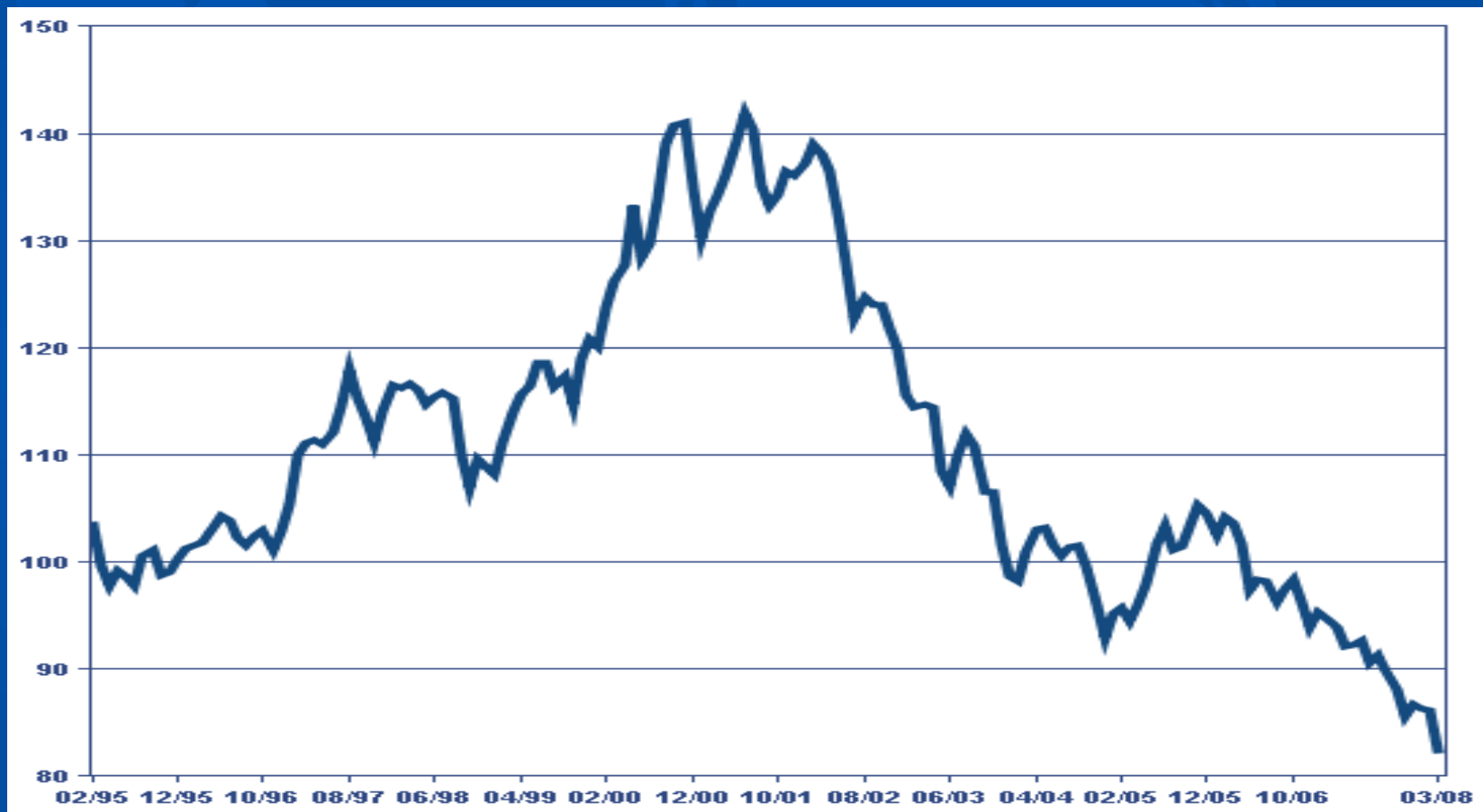
USD Index vs. Americas

(Source: Federal Reserve)

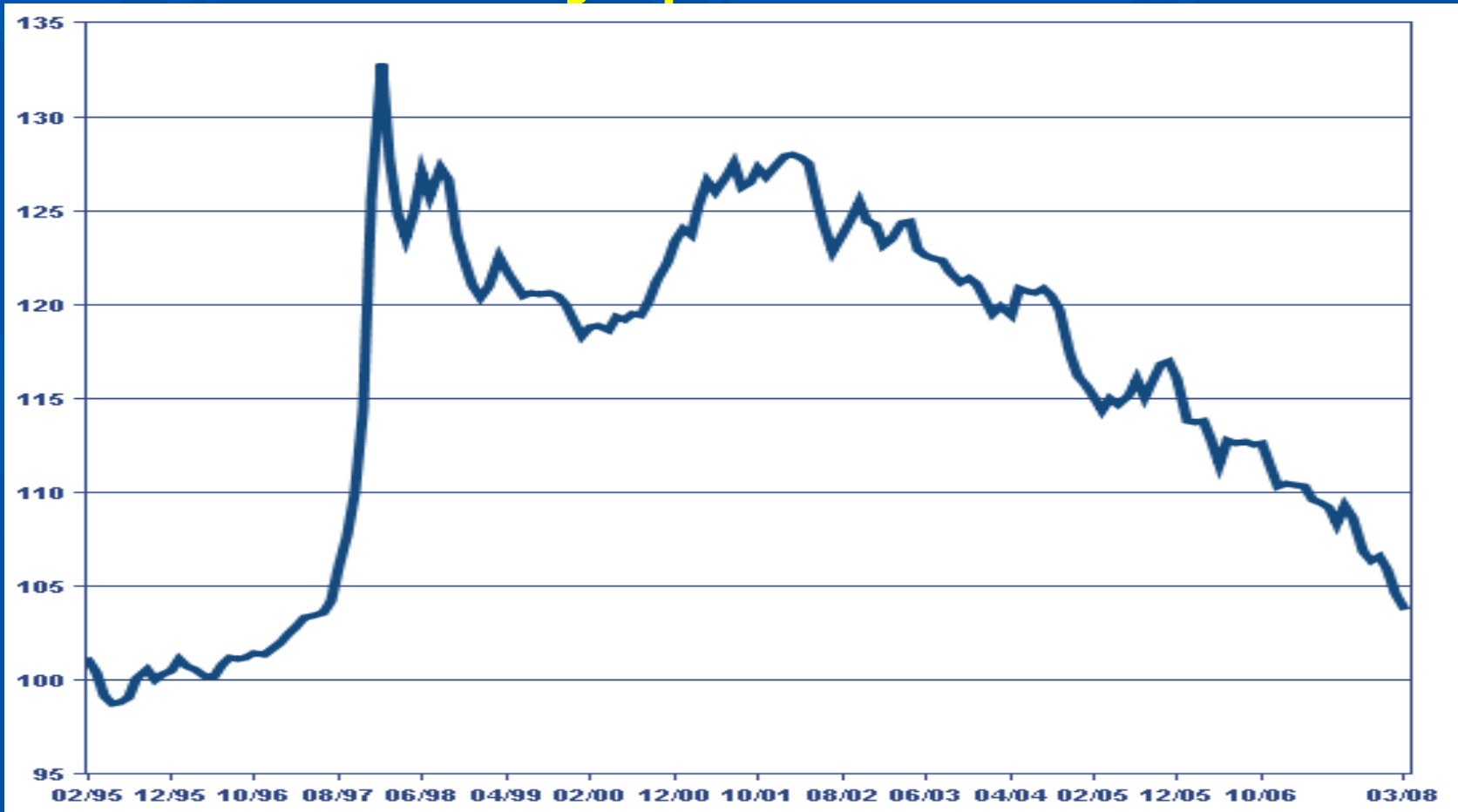


USD Index vs. Euro

(Source: Federal Reserve)

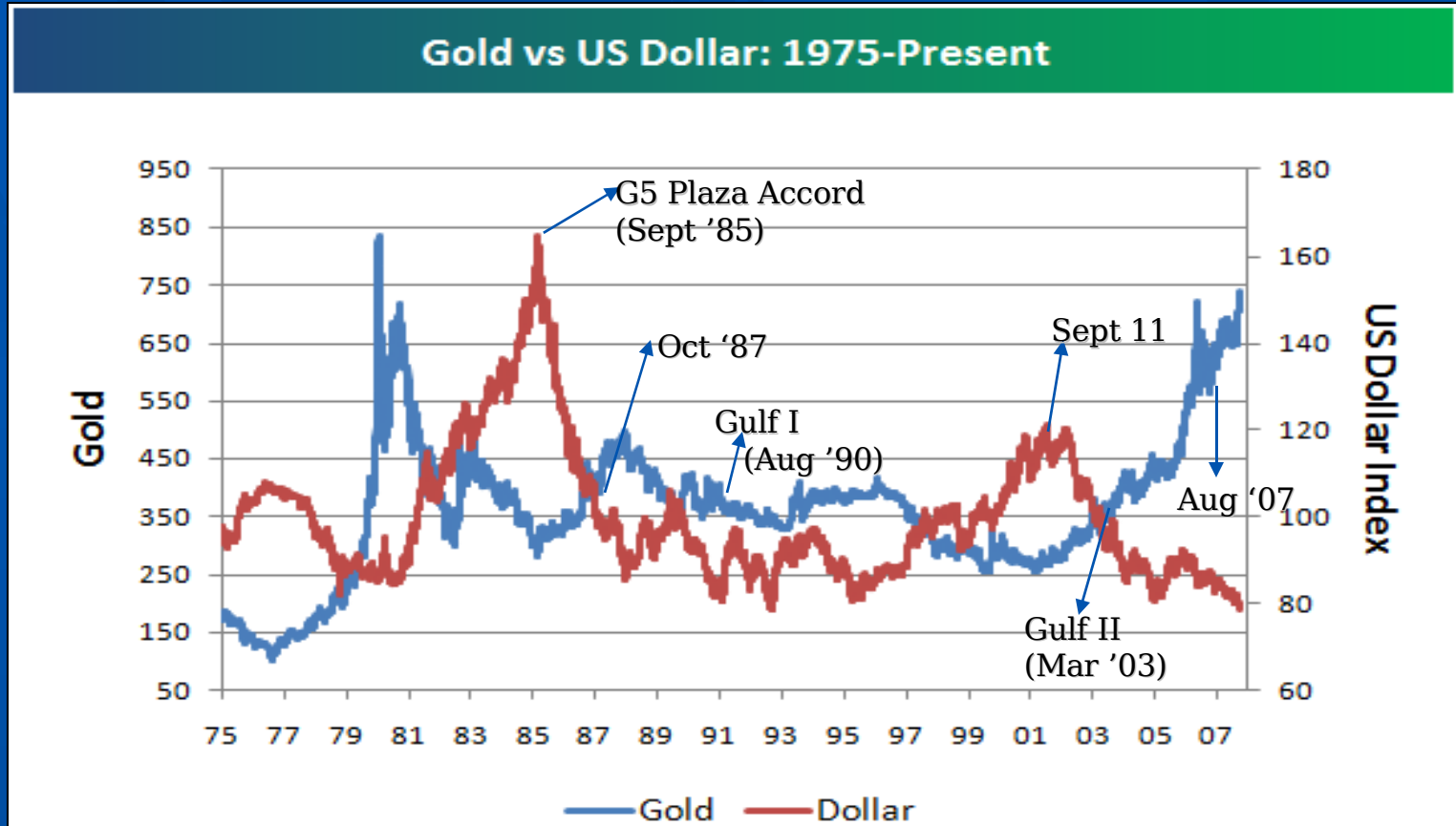


USD Index vs. Pacific ex Japan



Gold vs. USD

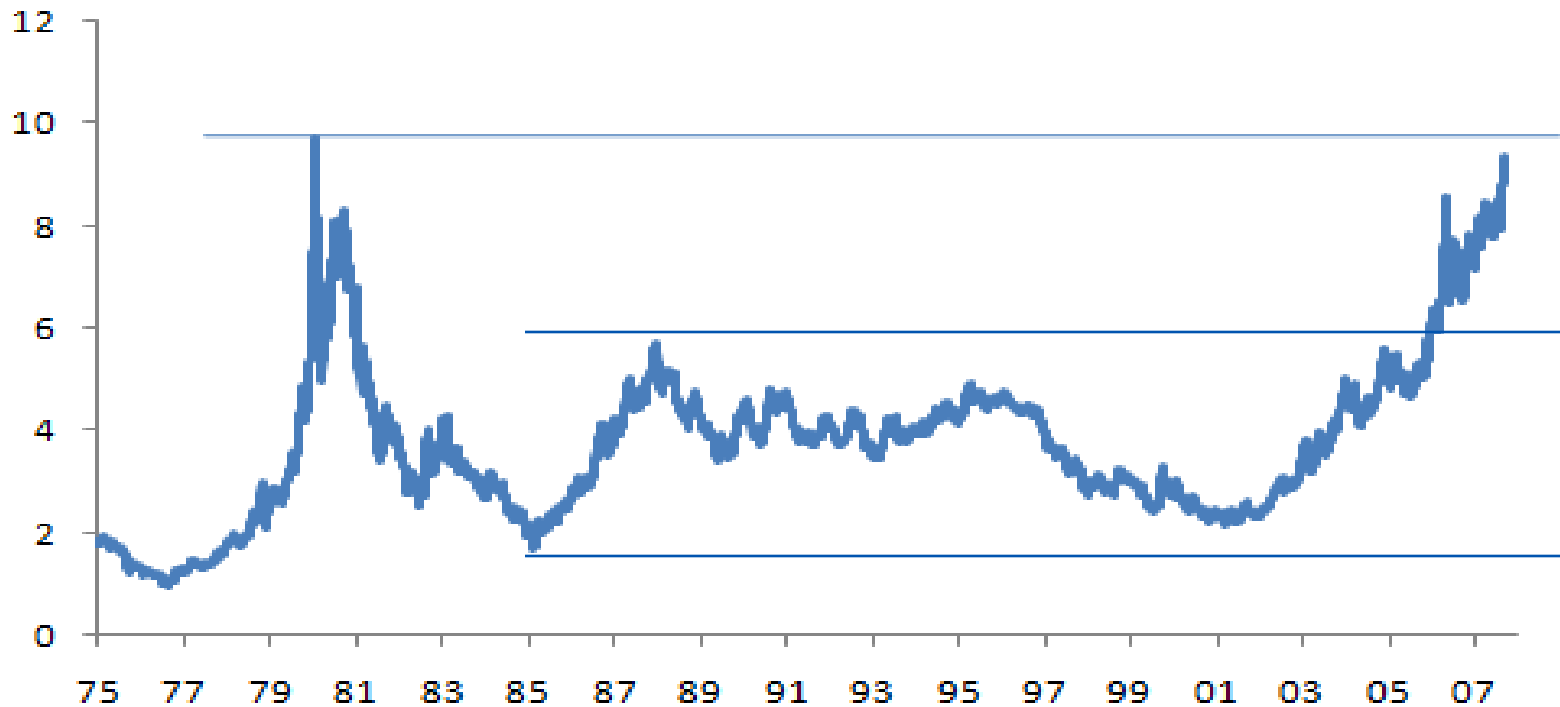
(Source: Seeking Alpha)



Gold/USD Ratio

(Source: www.seekingalpha.com)

Gold/Dollar Ratio: 1975-Present



Fall Out of Sub-prime?

- ◆ USD depreciating before August 2007
- ◆ Uncertainty from Sub-prime may have accelerated USD fall
 - Prospect of Fed rate cuts
 - Prospect of severe recession
 - Presidential uncertainty...
- ◆ However, sub-prime also created opportunities for cash rich players.

Sub-prime & Currency Composition

- ◆ Clearly global players had already talked up shifts in portfolio composition:
 - Central Banks (China, other emerging mkts)
 - Kuwait shifted its peg away from USD
 - Even Jay-Z and Gisele Bundchen asked for payments in Euro!!
- ◆ Sub-prime had no clear implication
 - to the contrary distressed

Shifts in Strategic Asset Allocation?

- ◆ Diversification tends to prevail in global portfolios
 - Central Bank: reflection of currency composition of liabilities
 - Multinational corporations: fund foreign operations
 - Pension & Insurance funds: inverse correlations
 - Arbitrageurs: no allegiances – the trade is what matters.

GRAVITAS EQUITY ADVISORS, LLC
◆ But, Currency as an asset class

Arbitrage as mainstream

Value Plays in Context

- ◆ Fundamentals vs. Technicals
- ◆ Asset class & sector rotations within the currency
- ◆ Global tactical re-allocation:
 - Decoupling (El-Erian)
 - Global growth (BRICs, Real Estate, Commodities, Transports..)
- ◆ Distressed Investing (Private Equity)
- ◆ But, USD remains anchor currency
 - US: \$15 Trillion, EU: \$13 Trillion, China: \$7 Trillion, India: \$5 Trillion; Brazil: \$2 Trillion...

Implications for Caribbean Investors?

- ◆ USD peg for most part helps export led economies
- ◆ US/UK tourism is hurt – but BRIC/Euro/GCC tourism is not
- ◆ Outward portfolios to look at US distressed and global opportunities
- ◆ Inward portfolios to focus on financial infrastructure, telecoms and transports...

GRAVITAS CAPITAL ADVISORS LLC. ◆ But timing is key!

Suggested Bibliography:

- ◆ Money Market Strategies for Futures Traders (Balsara)
- ◆ The Black Swan (Nassim N. Taleb)
- ◆ Federal Reserve
(www.frbatlanta.gov)



Thank you.

Contact

- ◆ Eric Guichard – Chief Investment Officer

GRAVITAS Capital Advisors, Inc.

601 Pennsylvania Avenue, NW – Suite
900 So.

Washington, DC 20004

(202) 434-8341 (T)

(202) 234-6344 (F)

www.gravitascapital.com